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SUBJECT: RWANDA'S 2009-2010 BUDGET TABLED BEFORE PARLIAMENT

REF: KIGALI 0348

¶1. (SBU) Summary. Finance Minister James Musoni introduced the Government of Rwanda's (GOR) 2009-2010 budget before Parliament on June 11. His budget message laid out a USD 1.452 billion budget, up 24 percent from last year in nominal terms, with domestic resources for the first time exceeding donor budget contributions. With the advent of the East African Community (EAC) Common External Tariff on July 1, the GOR stands to lose USD 21.5 million dollars, a significant revenue loss. It will seek to recover this shortfall by application to a Common Market for Eastern and Southern Africa (COMESA) compensation fund, and through an increase in excise duties on telecommunications "air-time" from three to five percent. The budget emphasizes infrastructure and education expenditures, with significant budget allocations made directly to the 30 district governments. Contacts at the Finance Ministry project a budget deficit of about USD 123 million, or 2.3 percent of GDP. Despite difficult economic trends worldwide, the GOR projects a 5 percent growth in its economy in 2009. End summary.

¶2. (SBU) Finance Minister James Musoni presented to Parliament on June 11 the 2009-2010 budget, the first to be aligned with the EAC July 1 - June 30 budget year. The USD 1.452 billion budget rises 24 percent in nominal terms from the last 12 month budget (the GOR instituted a six month January-to-June 2009 bridge budget to span the old and new budget years). With inflation now running at about 14-15 percent, the real budget increase is less dramatic. Musoni noted the difficult economic trends worldwide, and said Rwanda's 11.2 percent growth in 2008 was a "tremendous performance." (The IMF and the GOR project a reduction in growth this year to just over 5 percent - see reftel). Musoni said he expected reduced demand for Rwanda's tea and coffee, reduced income from tourism, and possibly reduced budget support from donors. Nevertheless, he said, Rwanda would fund important capital expenditures to develop key physical infrastructure (including roads, energy generation and distribution, and ICT projects). Agriculture, which grew near twenty percent in 2008, will also receive significant budgetary support, and key health and education projects will also be pursued.

¶3. (SBU) Important development projects Musoni discussed in some detail included: renovation of a number of "national" roads; finalizing of studies for the proposed Bugesera International Airport and for the Isaka, Tanzania to Kigali railway link; extensive construction of waterworks around the

nation; completion of several electrical generation plants, including the 27.4 MW Nyabarongo dam; several fisheries projects; extensive fertilizer distribution; various seed projects; and various cooperative development projects. Health and education projects included: completion of various hospitals and health centers; distribution of 1.3 million mosquito nets; construction of 1,700 classrooms; distribution of 100,000 student laptops; acquisition of 500,000 textbooks; and various distance learning projects.

¶4. (SBU) Musoni also noted the commencement of the EAC's Common External Tariff on July 1, which entails various

reductions in tariff levels and tariff income for the GOR, and will result in a USD 21.5 million revenue loss. The GOR will seek to cover this shortfall with an application to a COMESA compensation fund, and an increase in telecommunications "air-time" tariffs from three to five percent (something the local telecomms companies grumbled about immediately). A Finance Ministry contact told pol/econ counselor the GOR's application to the COMESA compensation fund would be the "first ever" by a COMESA government, with the fund supposedly being underwritten largely by the European Union. The GOR will also partially cover its budgetary shortfall, estimated at USD 123 million (or 2.3 percent of GDP) said the Ministry contact, with a one-time USD 42 million drawdown of Central Bank foreign exchange reserves.

¶5. (SBU) Comment. The 2009-2010 budget sustains the GOR's stated goal of pursuing economic development through improved infrastructure, better schools and health care, and a more

productive rural sector. President Kagame's oft-stated goal of reducing the size of foreign assistance is modestly reflected in the fact that, for the first time ever, just over half the budget is financed from domestic resources rather than donor budget support. If Rwanda can weather the

world economic storm, and grow by five percent this year, it will have turned in another remarkable, economic performance. End Comment.

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